

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 L-03 H-01 PA-01 PRS-01 /086 W
----- 056871 /43

R 171252Z DEC 76
FM AMEMBASSY MADRID
TO SECSTATE WASHDC 8363
INFO USMISSION OECD PARIS

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E.O. 11652: N/A
TAGS: PFOR, EFIN, ELAB, SP
SUBJECT: MONETARY POLICY AND SPANISH ECONOMIC SITUATION

REF: MADRID 8609, MADRID 9278

1. IN EXCLUSIVE INTERVIEW GRANTED TO MADRID DAILY, ABC, DEC 14, BANK OF SPAIN GOVERNOR LOPEZ DE LETONA REVIEWED GOS MONETARY POLICY AND SPANISH ECONOMIC SITUATION. HE SAID THAT DECISION TO EXPAND CREDIT TO PRIVATE SECTOR FOR LAST QUARTER OF 1976 (MADRID 8609) WAS JUSTIFIED TO PROVIDE NECESSARY LIQUIDITY FOR SMALL AND MEDIUM SIZE FIRMS, WOULD RESULT IN SMALLER CREDIT EXPANSION IN 1976 THAN IN PREVIOUS YEARS, AND WOULD NOT ADD TO INFLATIONARY PRESSURE. ALTHOUGH BANK OF SPAIN PLANS CREDIT EXPANSION OF 327 BILLION PESETAS DURING LAST QUARTER COMPARED WITH ONLY 370 BILLION DURING ENTIRE FIRST 9 MONTHS OF 1976, LOPEZ DE LETONA SAID THIS WOULD MEAN CREDIT INCREASE FOR YEAR OF NOT MORE THAN 22.5 PERCENT COMPARED WITH 24.1 PERCENT IN 1975, 26.6 PERCENT 1974, AND 27.5 PERCENT IN 1973.

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2. NOTING THAT SPAIN HAD NOT ADJUSTED ECONOMIC POLICIES TO INCREASES IN OIL PRICE, LOPEZ DE LETONA SAID THAT ONLY WAY OUT OF ECONOMIC PROBLEMS NOW FACING THE COUNTRY IS THE ADOPTION AS SOON AS POSSIBLE OF SEVERE AUSTERITY MEASURES. FOR THIS, BUSINESSMEN, WORKERS,

AND CONSUMERS MUST AGREE TO SHARE BURDEN AND "PAY THE PRICE OF A GRAVE ECONOMIC CRISIS." NEEDED, HE AFFIRMED, ARE FREE AND RESPONSIBLE LABOR UNIONS WHICH AGREE TO MANAGEMENT'S RIGHT TO HIRE AND FIRE AND ACCEPT THE NEED FOR REASONABLE PROFITS TO MAINTAIN EMPLOYMENT. FOR THIS, THE QUID PRO QUO IS FISCAL REFORM TO BRING ABOUT A MORE EQUITABLE INCOME DISTRIBUTION AND TAX BURDEN. LOPEZ DE LETONA CONCLUDED BY SAYING THAT WHILE BOTH POLITICAL AND LABOR REFORM ARE URGENT, HE DOES NOT BELIEVE THE REQUIRED LABOR-MANAGEMENT PACT IS POSSIBLE BEFORE ELECTIONS.

3. COMMENT: DURING AUGUST AND SEPTEMBER, CREDIT AVAILABLE TO THE PRIVATE SECTOR WAS SCARCE AND THE INTERBANK RATE (THE INTEREST RATE AT WHICH BANKS LOAN SHORT TERM MONEY TO EACH OTHER) HAD RISEN TO 20 PERCENT. TO EXPAND CREDIT, THE BANK OF SPAIN BEGAN DURING OCTOBER OFFERING 7-DAY LOANS TO PRIVATE BANKS AT A FIXED RATE OF 7 PERCENT. THIS RAPID CREDIT EXPANSION HAS HELPED TO KEEP SMALLER WEAKER FIRMS AFLOAT, AND IT IS IN CONFORMITY WITH THE GOVERNMENT'S POLICY OF CHANNELING MORE CREDIT TO SMALL AND MEDIUM-SIZED FIRMS FOR EMPLOYMENT REASONS (MADRID 9418). BUT IT HAS ADDED TO INFLATIONARY PRESSURES SINCE WITH INVESTMENT STAGNANT IT HAS GONE TO MEET WAGE BILLS, OTHER CURRENT EXPENDITURES AND PRESUMABLY CAPITAL FLIGHT. MOREOVER, ALTHOUGH THE GOS BEGAN INSTITUTING FISCAL RESTRAINT IN MID-YEAR (MADRID 9278), THE OVERALL PUBLIC SECTOR DEFICIT FOR 1976 WILL PROBABLY BE AT LEAST AS GREAT AS FOR 1975. WHILE LOPEZ DE LETONA'S REMARKS CONDITION THE PUBLIC FOR REQUIRED AUSTERITY MEASURES TO COME, THEY ARE ANOTHER STATE-LIMITED OFFICIAL USE

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MENT THAT ELECTIONS MUST COME FIRS. WE CONTINUE TO HEAR SOME CONTRARY VIEWS FROM THE PRIVATE BUSINESS AND BANKING COMMUNITY AND SOME OTHER SOURCES. ONE PRIVATE BANKER HAS MADE A STRONG ARGUMENT TO US THAT THE NEW GOVERNMENT WHICH COMES TO OFFICE AFTER ELECTIONS WILL HAVE SO MANY UNDECIDED POLITICAL AND LABOR ISSUES STILL ON ITS PLATTER THAT IT WILL BE IN LITTLE IF ANY BETTER POSITION TO TAKE STABILIZATION MEASURES THAN THE PRESENT GOVERNMENT IS NOW. BECAUSE OF THIS POLITICAL ARGUMENT AND THE ECONOMIC NEED, HE ARGUES THAT, DESPITE GOVERNMENT DISCLAIMERS, SUCH MEASURES SHOULD, AND EVEN PROBABLY WILL COME SHORTLY AFTER THE REFERENDUM. THUS DESPITE LOPEZ DE LETONA'S REMARKS, THE QUESTION OF WHEN THE GOVERNMENT MAY ACT REMAINS OPEN. STABLER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, PRESS CONFERENCES, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MADRID09489
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760466-0192
From: MADRID
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761233/aaaabcpc.tel
Line Count: 110
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 MADRID 8609, 76 MADRID 9278
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 26 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 APR 2004 by BoyleJA>; APPROVED <12 AUG 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MONETARY POLICY AND SPANISH ECONOMIC SITUATION
TAGS: PFOR, EFIN, ELAB, SP, (DE LETONA, LOPEZ)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006